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Snowden, James Ross

A measure proposed to secure to the people a...

Philadelphia

1857

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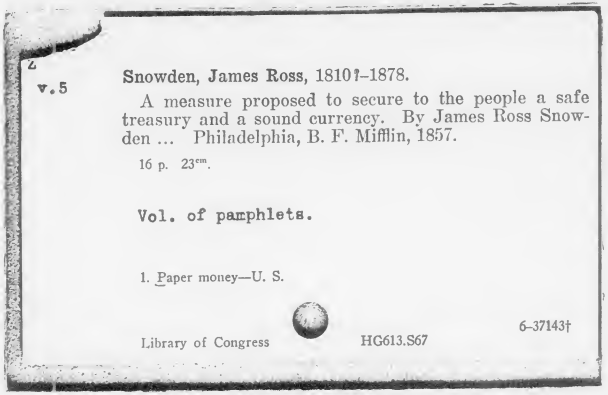

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No. 7

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MEASURE

PROPOSED TO SECURE TO THE PEOPLE

A Safe Treasury

AND

A SOUND CURRENCY.

By James Ross Snowden,
Director of the Mint of the U. S.

PHILADELPHIA:
BENJAMIN F. MIFFLIN, WALNUT STREET.
1857.

LIBRARY OF
THE REFORM CLUB
SOUND CURRENCY COMMITTEE,
52 William St., New York.

INTRODUCTION.

The following communication, addressed to the Secretary of the Treasury, is published with his sanction.

The proposition therein considered embraces two objects, namely:

1. To authorize certificates to be issued on deposits of *gold bullion*, at the Mint and its branches, and the Assay Office, in convenient sums at the option of the depositor, and payable to bearer.

2. To permit similar certificates to be issued at the minting establishments above named, and at the Treasury and Assistant Treasuries of the United States on deposits of the *gold coins* of the United States.

The Mint is authorized, by the 19th section of the general Mint law, passed January 18th, 1837, to give the depositor "a certificate of the net amount of his deposit, to be paid in coins of the same species of bullion as that deposited." But it is proposed to go further, and permit several certificates to be issued for the same deposit, by dividing the amount into such sums as the depositor may wish, and making them payable to bearer. It might be proper that neither the *bullion* nor the *coin* certificates should be issued for a less sum than twenty dollars; but this point, as well as the details of the plan may, with propriety, be left for future consideration. If the principle suggested is sanctioned, the details can be very readily supplied.

As reference is made in this paper to a remark in my last annual report, respecting the production of the precious metals within the last few years, it is deemed proper to insert it here. After showing

that the whole coinage of the Mints, up to the 30th of June, 1857, amounted to upwards of five hundred and eighty-eight millions of dollars, I observe that "of this amount there has been received since the 1st of January, 1849, of native gold, the production of the United States, the sum of four hundred and two millions of dollars. If, in addition to this sum, we add the gold produced in Australia, and other foreign countries during the same period—which may be stated to be about five hundred millions of dollars, and the production of silver bullion from all sources, which is at the rate of about forty millions per annum—it will be seen that within this comparatively brief period, the world's supply of the precious metals has been increased to the extent of twelve hundred and forty millions of dollars. In view of this great increase, and of the further supplies which will doubtless for years to come be received from the same sources, it may well be considered, whether in a country so highly favored with the production of gold, and the supply of silver as ours, some measures should not be adopted by which the people, in like manner with the Government, should enjoy the advantages of a specie currency."

I beg also to add, as a further remark, that since the present communication to the Secretary of the Treasury was prepared, the contingency therein referred to, of the probable withdrawal of the bullion fund from the Mints, has happened. As the Mints are now without a bullion fund in gold, and great delay in paying depositors of gold for coinage must necessarily take place, the reasons in favor of the issue of Mint and Coin certificates are much strengthened. On this point I refer particularly to the sixth paragraph of the communication.

In concluding these preliminary remarks, I think it not inappropriate to refer to the second annual message of Gen. Jackson, in which it will be seen that he thought it practicable and constitutional "to organize a branch of the Treasury Department,

based upon *public* and *individual* deposits." The Independent Treasury system has most happily provided for the security of the *public* deposits; and established a constitutional currency for the government. We will have advanced further in the right direction when we provide an equally safe Treasury for *individuals;* and secure to the people a paper currency which will actually represent, and be at all times convertible into, gold.

If, in addition to this measure, the States adopt the Independent Treasury system, then the country will substantially possess the advantages of a specie currency, and be relieved from the pernicious influence of banks of issue. The banks will then become what they ought to be, namely, places where deposits of money may be made, drafts purchased, and discounts obtained. Gold and silver, and the undoubted equivalent of the former, namely, mint and coin certificates, will then be the general currency of the country.

To assist in the accomplishment of these desirable results, this brief pamphlet is respectfully submitted to the public.

J. R. S.

MINT OF THE UNITED STATES,
Philadelphia, Dec. 24th, 1857.

MINT OF THE UNITED STATES,
Philadelphia, November 4, 1857.

TO THE HON. HOWELL COBB,
Secretary of the Treasury.

SIR:

When I submitted to your consideration a proposition, relative to the issue of certificates on the deposit of gold bullion and coin, and placed in your hands a brief statement of some of the advantages which would result from their issue, you were pleased to indicate a wish, that I should present my views more fully on the subject. In doing so, I will notice some of the advantages of the plan proposed; and will adopt the same order pursued in the paper I placed in your possession.

1. *Security to the owners of specie.* This would be the same as that of the government for its own funds, and no improvement in this respect would probably be desired. The advantages of this security would be felt to be so great, that I am satisfied that large amounts of the precious metal would ultimately be accumulated in this way. At present, the holders of coin, beyond what is immediately needed for current use, have to choose between private hoarding

with its hazards and annoyances, and the public injury consequent upon its withdrawal from circulation, or its deposit in a bank, to be exposed to the various risks, which sad experience shows to be incident to such an institution.

2. *The practice of hoarding is much induced by a want of confidence in banks and individuals.* If the holder of coin is made secure, he would, in most cases, gladly bring it forth from its hiding place, and thus relieve himself from the anxiety and danger which arise from its possession. Robberies, burglaries, and murders are frequently induced by the practice of hoarding. It is believed that the plan proposed would check this injurious habit.

3. *The specie thus deposited would not be withdrawn from circulation.* On the contrary, it would be as available as if it remained in actual circulation. The specie certificates, representing as they would dollar for dollar, would be as advantageous, for the purpose of currency, as the coin itself. For making payments to the government, and for domestic exchanges, and in other large monied transactions, they would be more convenient than coin, by reason of their portability, the readiness by which they could be counted, and their facility of transmission.

4. *The specie thus deposited would constitute a great reserve, to be withdrawn, at any time when a special demand for coin might arise, without the slightest disturbance of the commerce, finances, or loan market of the country.* This is undoubtedly a most beneficial feature; and

that it may be better understood, a brief reference to the usual causes of what is called a financial crisis, is appropriate. Such a crisis we find, in this country, almost always to happen in consequence of an unusual demand, or the apprehension of such demand, for coin. This demand is chiefly induced by an excess or redundancy of paper currency and credits, evidenced in the first instance by a demand for coin for exportation. Under a proper system of currency, namely, one of specie, the exportation of coin cannot be regarded as injurious. Gold, under such circumstances, would go wherever it is required, just as cotton, wheat, or any other production of the soil does.—But whilst we rejoice at the exportation of these agricultural productions, we evince great reluctance in parting with gold. This is a consequence of the false artificial system which has been imposed on the community; and to this we must look for an explanation. We shall find it in the organization of our banks. These institutions are mainly the repositories of the specie of the country, except what is in current circulation and in the vaults of the government. On the basis of this specie they obligate themselves to pay, on demand, to their depositors and note holders, in coin, an amount from six to ten times, or more, the total value of the specie actually in hand. This disparity of immediate means to immediate liabilities is so great, that in case their creditors, or any considerable proportion of them demand the specie, the banks must fail to pay. But even what is comparatively an insignificant call for coin, and does not cause the failure of the banks, may, nevertheless produce great disasters to the business operations of the country. The banks, conscious

of their inability to withstand a demand upon them, endeavor to check its first symptoms, and to protect themselves, by calling in their loans, or collecting them as they fall due, and refusing the discounts to which the merchants and manufacturers have been accustomed. Such a contraction of loans, to a community which has based its business on the expectation of them, must necessarily prove eminently disastrous. How often have we seen a slightly increased demand for specie on the banks, growing out of, perhaps, the accident of a foreign war, or an unusual import of foreign goods, bring in its train that contraction of the loan market which eventuates in a paralysis of credit and business, and the prostration of the merchant, manufacturer, mechanic and laboring man? But without enlarging on this topic, I think it will readily be seen that it would prove a great benefit if the demand for specie did not operate, as it now does, upon the banks, or in other words, upon the loan market. By the adoption of the plan under consideration, I am of opinion that any unusual drain of coin for foreign exportation or otherwise, would operate mainly, if not solely, on these mint and coin certificates. If so, it is evident that the banks could continue their usual functions without being disturbed by such a demand. The loan market would not be affected in any degree, and the panics and financial disasters, now so constantly attendant upon the movement of specie, would cease. These views, of course, are predicated upon the idea that the certificates herein noticed are not to be counted by the banks as specie. It is not designed to affect the legislation of the several States on this subject, which permits only the

coin of the United States to be so counted. Hence the certificates could not be used as a means of banking operations, but as a circulating currency themselves. The gold which they would represent would be the great reserve, to be used when the special demand for it should arise.

5. *The plan, by substituting paper for specie placed on deposit, will avoid the loss incident to the wear, clipping and other injuries to coin, through circulation.* This in time constitutes quite a considerable item of loss, and ultimately eventuates in a degradation of the standard by diminishing the weight, or involves the expense of re-coinage. A re-coinage ordered by the English government was commenced in 1774, and ended in 1788. During that period the coinage was £18,000,000. Probably three-fourths of this amount were pieces re-coined. The deficit of weight was an expense to the government of £500,000—about 3½ per cent. Many of these pieces, it is true, had been in circulation for a very long period. But a loss by wear is unavoidable, inasmuch as the metals used must be sufficiently malleable to be rolled, cut into planchets, and milled, and receive the impression from the dies at a single blow.

6. *The plan would obviate the necessity of a government bullion fund being retained at the Mints.* In explanation of this remark, I mention that depositors of bullion are now paid immediately after the values of their deposits are determined by an assay, say in two or three days, although it takes as many weeks to manufacture their bullion into coin when it is brought

to the Mint in its natural or unrefined condition. The government advances to the Mints and the Assay Office the funds necessary to affect such prompt payments; and it is found that for all the establishments about five millions of dollars are required. But under the proposed plan so large an amount of the deposits would remain permanently on hand uncalled for, that these government advances could be withdrawn without any inconvenience, which in the present state of the treasury would be highly advantageous, and seems, indeed, in any contingency, to be desirable.

7. *It may be alleged that the proposed certificates would substitute a government paper currency for a specie currency.* To this I remark, that such an objection is founded on an abuse of terms. A paper currency, in the sense generally understood, and to which all the objections to such a circulation apply, is one emitted upon the mere general credit of the issuers, whether individuals, banks or governments. As to banks, their principal object is profit to their stockholders. The more of their credit they can lend, the greater profits accrue. Hence they are stimulated to outrun each other in the career of expansion, fostering a spirit of speculation and high prices, which induces increased applications for discounts until the currency becomes redundant; when some apparently trivial cause exposes the instability of the system, and brings on a reaction, producing ruin and destruction to all the industrial pursuits of the community. It is unnecessary, however, to discuss the evils of the banking system. The present unhappy condition of the country speaks, on this point, more forcibly than

words. But none of the evils thus adverted to can be produced by the certificates I am now considering, because they will not be based upon the credit of the issuers, but upon deposits of bullion and coin. They will, in fact, be merely receipts for bullion and coin. There cannot be an over-issue of them any more than the specie, for which they are receipts, could be an over-issue while in circulation. Nor could their emission have any further tendency to inflate prices or encourage speculation than such specie itself.

8. *It is proposed that the certificates be made payable to bearer, and not to order.* For manifest reasons the former will be the most expedient, both as facilitating the currency of the certificates, and relieving the government and its officers from responsibility or uneasiness, in relation to the genuineness or validity of endorsements.

9. *It may be admitted that the plan will involve some risk, and perhaps expense to the government.* With proper guards and checks, such as are used in carrying into effect the Independent Treasury system, and such further securities as may be deemed expedient, the risk may be regarded as inconsiderable, and the expense but trifling. The official organization for the execution of it is, at present, complete; some additional clerical services may, on experience, be found necessary, which could be provided for as the exigencies of the case may, from time to time, arise. But if the risk and expense are made a subject of objection—allowing them more force than they seem to possess—it may be asked by way of reply, whether it

does not become necessary for the government to assume a responsibility and expense to accomplish a great constitutional object and an evident public benefit, as is done in other cases where its action is deemed expedient.

As a general remark, I may state, that the adoption of the plan proposed will give to the people the benefits of a system similar, in many respects, to the admirable one now used by the government. It looks towards the adoption, by the people, as well as the government, of specie or its undoubted representative, as the general medium of currency and exchange. It will, also, in my judgment, lead to the establishment of similar coin treasuries in the several States.

In my recent report to the Department on the operations of the Mint, I have exhibited the amazing increase in the world's supply of the precious metals within the last few years. I will not enter upon this subject here; but I refer to it in this connexion for the purpose of showing that if we create a demand for coin, we can have it to any amount that the business of the country requires.

The project I have been considering is not absolutely unsupported by precedents. Banks, according to their primitive organization, and before they became vitiated with the privilege of issuing paper money, were mere depositories for bullion and coin, securing to the depositor a credit exactly equal to such deposits. The banks of Venice and Amsterdam were such; and the Bank of Hamburg still remains on that footing. To show the exceeding commercial convenience of the plan, it appears that the credits in the banks of Venice and Amsterdam, always bore a

premium as compared with coin up to the time of their subversion under the French Revolution. The Bank of England also, under its late re-charter, embraces some features assimilated to the proposed plan. It has the privilege, it is true, to issue notes on its general credit up to the sum of £14.000.000; but all notes issued beyond that sum can only be in exchange for an equivalent amount of bullion brought to the bank. Its functions in regard to such additional issues are therefore absolutely mechanical, as much so as would be the case under the proposed plan of issuing specie certificates. It was the intention of the authors of the new bank charter—which was introduced by Sir Robert Peel, and prepared by him and other eminent political economists of Great Britain—that the volume of the currency should swell and diminish just as specie would were there no bank. As specie accumulates, it goes to the bank to be exchanged for an exactly equivalent amount of notes. As specie is demanded, it is withdrawn by the notes being returned again. This result appears to have been thus far secured. There are, however, objections to the English system, growing out of other features of the organization of the bank, especially the power to issue the large amount of £14.000.000 on "securities," which may probably disappoint the expectations of its authors. The plan I herein advocate has all the benefits and none of the disadvantages or evils of the institutions referred to.

As to the power of Congress to authorize the issuing of the proposed bullion and coin certificates, I have no doubt. It is not a bank that is suggested or anything like one. No power to loan, to discount, or

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As to the power of Congress to authorize the issuing of the proposed bullion and coin certificates, I have no doubt. It is not a bank that is suggested or anything like one. No power to loan, to discount, or

deal in exchanges, or transact any other business, is asked for; but simply the mechanical function of receiving gold bullion and coin, and giving certificates therefor. Without looking to the other and more general provisions in the Constitution, this power would seem to be embraced in the constitutional recognition of "a treasury of the United States," and the power "to coin money; regulate the value thereof, and of foreign coin."

I remark, in conclusion, that this subject was recently brought to my special attention by JAMES WORRELL, Esq., of Harrisburg, who sent me a copy of a resolution adopted by the Senate of Pennsylvania, in which a part of the plan herein considered, namely, the use of Mint Certificates, as a circulating medium, was recommended, and who asked my views upon the subject. It will be observed that I have considered this point in connexion with that of securing deposits of *coin* at the Mints and Treasury offices of the United States. I have deemed it proper, for obvious reasons, to communicate my views upon these subjects to the Treasury Department.

I beg to express the hope, that the plan suggested may receive the sanction of the government, and of Congress, and thus secure to the people the benefits of a safe treasury, and a sound currency.

I have the honor to be, with great respect, your faithful Servant,

JAMES ROSS SNOWDEN,
Director of the Mint.

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